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24 August 1948

Mr. Joseph M. McDaniel, Jr.
Special Assistant for East-West Trade Affairs
Economic Cooperation Administration
Paris, France

Dear Mr. McDaniel:

After considerable time, I have got together a paper on current thinking in the United States about East-West trade which I am enclosing herewith. I doubt if this will be all you want, but this seems to be about the best that we can do at the present time as (which I am sure you will know) things are a bit confused on this thing in Washington.

Sincerely,

Signed

R. H. Hillenkoetter
Rear Admiral, USN
Director of Central Intelligence

Encl - Paper "Current Thinking in the US
about East-West Trade" (in dup) --14 pages. (ER 0747) (ORE 405236)

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SECRET 405236*Office Memorandum* • UNITED STATES GOVERNMENT

Executive Registry

TO : Director, Central Intelligence Agency

DATE: 12 August 1948 0747

FROM : Deputy Assistant Director, ORE

SUBJECT: Current Thinking in the United States about East-West Trade

1. The attached paper is forwarded in accordance with your oral request.



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Captain, USN

Encl -

3 copies of Study

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**CURRENT THINKING IN THE UNITED STATES
ABOUT EAST-WEST TRADE**

1. Decisions with respect to East-West Trade and to the use of export controls by the United States impinge upon and are influenced by two basic national security interests.

(a) The maintenance of the presently superior industrial capability of the United States in comparison with the USSR. This implies seeking to limit the expansion of the USSR industrial capability in general and to reduce its immediate capacity to make or support a full-scale war in particular.

(b) The strengthening of the economy and political structure of Western Europe. This implies re-establishing that region as a center of power with the intention of achieving a global distribution of power favorable to the United States.

2. Decisions accordingly call for balancing the frequently competing claims of these security interests, and tend to fall into one of two general groups.

(a) Action to prohibit or restrict the movement of specified commodities from the United States and Western Europe to the USSR and the Eastern European Satellites.

(b) Acceptance of trade arrangements which will bring desired commodities from Eastern to Western Europe.

3. Decisions are implemented under the following Federal Laws. (For analysis of the various Acts, see Appendix "A".)

(a) General export controls, Act of 2 July 1940 (54 Stat. 714), as amended. The administrative agent is the Export Supply Branch, Office of International Trade, Department of Commerce.

(b) Foreign Assistance Act of 1948, which gives the ECA Administrator substantial powers to influence the exports of countries receiving United States aid.

(c) Act of 1 Sept., 1937 (50 Stat. 885) and of 15 Feb., 1939 controlling the export of comprehensive categories of war material. The administrative agent is the Munitions Control Division of the Department of State.

4. The principal commodities, other than munitions of war,

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which may be affected by export control decisions consist of the following:

(a) Commodities, whose movement from East to West in Europe is considered important to Western European Recovery (WEA): e.g. agricultural products, coal, potash, timber.

(b) Commodities desired by the USSR and the Satellite States and which tend to enter into the trade agreements negotiated between Eastern and Western European countries: e.g. industrial equipment (particularly special purpose machine tools, heavy mining and construction machinery and precision measuring equipment) and raw materials (especially natural rubber, tin, and wool).

(c) Commodities presently desired by the United States from the USSR: chromite and manganese.

5. In addition, complex political considerations also enter into the efforts to balance these claims.

(a) Attempts to secure supporting action by countries which are members of the Organisation for European Economic Cooperation (OEEC) for that taken by the United States immediately encounters the fact of already negotiated and operating agreements between such countries and the USSR and Satellites. Such agreements number approximately seventy. These agreements have become part and parcel of the financial, commercial and economic plans of the countries concerned, and their modification is politically difficult since it touches upon both internal stability and a general disinclination to offend the USSR.

(b) Intra-European trade, whether between the countries participating in the European Recovery Program (ERP) or between these countries and Eastern Europe, appears so essential to these countries that a strong political resistance develops to interference by the United States on security rather than economic grounds.

(c) The structure of British Commonwealth trade, the political objective of maintaining a strong British position in intra-European trade, and the political commitments of the Labour Government, introduce a highly specialized factor into the total situation.

Note: Attention is called to the exploitation of these political factors by USSR radio (Moscow in English to UK, 18 July, 1948,

"The US monopolies are not interested in normalizing European trade: on the contrary they are doing their best to undermine trade not only between Western and Eastern Europe, but also among the Marshall Plan countries themselves."

(d) Finally, within the United States, a political factor

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enters into the situation in the form of persistently recurring demands for the restriction of exports to the USSR and Satellites.

6. During most of the first two years following World War II, United States export controls were invoked almost exclusively for domestic economic reasons. By means of the Positive List, quantitative restrictions were applied and licenses required for exports of essential items in short supply. After the Soviet Union revealed its intention to block the success of the Marshall Plan, however, export controls were invoked to support United States foreign policy. All exports to Europe are now subject to scrutiny and require licenses. Until recently this control amounted virtually to an embargo of shipments to Eastern Europe, whereas shipments to ERP countries have been facilitated. Currently the policy with respect to exports to the Soviet bloc is being clarified. This is being worked out by classifying export commodities into categories which reflect the importance (or the unimportance) of various commodities to the military potential of the Soviet Bloc, the degree of dependence of the Soviet Bloc upon imports of such commodities from the United States, Western Europe, or other parts of the world, and similar factors. The major lines of action proposed with respect to exports to the USSR and Satellites are:

(a) To control (complete prohibition of certain items, quantitative limitation of others) the movement of selected commodities from the United States to the USSR and Satellites.

(b) To support such control by calling for corresponding action from the countries of Western Europe participating in ECA.

(c) To exercise such control with some flexibility so as not to provoke reprisals that might check the westward movement of commodities considered "essential" to the economy of Western Europe or presently desirable to the United States.

7. Comments bearing on future consideration of the problem.

(a) The economic recovery and political stability of Western Europe is a security interest that can be pursued simultaneously with that of limiting the immediate war-making capacity of the USSR. It is questionable, however, if it can be pursued simultaneously with an interest in retarding the long-term industrial growth of the USSR. In comparison with the security advantages that are expected to follow the recovery of Western Europe, the retardation of USSR industrial capability appears to be a less immediate security interest. In any event, this growth is impeded by internal factors which operate aside from any positive action by the United States. The most obvious of these factors are underdeveloped transportation, limited managerial skills, the slow rate of diffusion of broad technical skills. These factors permit some choice between the immediate value of strengthening the Western European system and the remote value of retarding the Soviet system.

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(b) The balanced policy that is being sought by the United States calls for flexibility and constant re-examination. Both discussions and decisions require protection from those psychological elements in American opinion that would force them into a rigid pattern of economic warfare.

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APPENDIX A

LEGAL AUTHORITY AND ADMINISTRATIVE AGENCIES

The export-control authority provided under existing legislation is comprehensive. Exportation may be restricted by quota allocation or by denial of licenses to export commodities when shipment might injure the nation's economy or be inconsistent with United States foreign policy. Until recently, control was invoked almost exclusively for domestic economic reasons -- i.e., when the exportation of materials in scarce supply would be deleterious to the national economy. Since July 1947, however, export control has been authorized whenever essential to "carrying out the foreign policy of the United States." In brief, four types of control are now in force:

<u>Control</u>	<u>Administrative Agency</u>
General exports	Department of Commerce ^{1/}
Fissionable material, etc.	Atomic Energy Commission
Arms, ammunition, etc.	Department of State
Gold and narcotics	Treasury Department.

^{1/} Subject to authority conferred upon Economic Corporation Administration, see text.

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Control.- General exports

Authorization.- Act of July 2, 1940 (54 Stat. 714), as amended; Public Law 395 - 80th Congress, approved December 30, 1947; and Public Law 188 - 81st Congress, approved July 15, 1947 (Second Decentral Act of 1947). See also, Foreign Assistance Act of April 1, 1948.

Administrative agency.- Export Supply Branch, Office of International Trade, Department of Commerce.

Objectives.- 1. Basically, to protect the domestic economy from injury which would result from the adverse distribution of materials in short world supply.

a) To combat inflation by judicious husbanding of essential materials.

b) To restore a greater degree of competition in United States export trade by favoring shipments at lowest prices.

2. To aid in carrying out United States foreign policy.

a) To channel scarce materials to countries and end users which will assure the greatest contribution to the recovery of Europe.

b) To prevent movement to any destination of goods whose exportation would be inimical to the national interest or world recovery.

c) To make available to countries in need commodities whose unrestricted exportation to all destinations would not be appropriate.

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Licenses are, of course, denied if exportation is found contrary to the above objectives. (Control under the Positive List is the only requirement for exports to non-European countries -- designated as "Country Group O"; see following section).

COUNTRY GROUP B. - Regardless of their character, all exports to European countries and certain countries contiguous thereto require a validated license. To promote competition, to check inflation at home and abroad, and to conserve European reserves of foreign exchange, exporters offering lowest prices are favored. To foster a return to private trading, licenses are favored authorizing exports to private consignees.

After scrutiny to assure observance of the objectives detailed above, licenses are currently granted on a liberal basis to consignees in ECA countries. Control is more rigorous, however, in the case of Eastern European countries; during the first few months while more formal criteria were being developed the requirement of licenses resulted virtually in an embargo on shipments to those countries. Currently, all exports to Eastern European countries are classified in five categories reflecting chiefly their degree of importance or lack of importance to the war potential of the Soviet Union. Licenses are granted discriminatingly with a view to allowing enough trade, more or less on a quid pro quo basis, to assure continued flow of certain materials obtainable in Eastern Europe. Thus,

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it is aimed to assist Western Europe in obtaining essential imports, to ensure to the United States an adequate flow of important strategic materials, and at the same time to prevent or retard further increase in the war potential of Eastern Europe.

Under the Foreign Assistance Act of 1948, the ECA Administrator is given two comprehensive powers in determining the character of United States export controls. He is directed to refuse delivery, insofar as practicable, to participating countries of commodities which go into the production of any item for delivery to any non-participating European country if export licenses for such item would be refused to those countries in the interest of national security. The ECA Administrator is also authorized to require the denial of licenses for the exportation of any commodity to non-participating European countries if the supply of such commodity is insufficient to fulfill the requirements of the participating countries. The Administrator is authorized to obtain pledges from the participating countries to employ their best efforts to accomplish the objectives of the joint recovery program. Thus, the ECA has indicated that, as a matter of policy, it will require participating countries to refuse export licenses for commodities to destinations where comparable control is exercised in the United States. Similarly, acceptable controls will be required for export of commodities on which the United States imposes quantitative restrictions.

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Export priorities.- The Second Decentral Act authorizes the Secretary of Commerce to invoke export priorities whenever a material is required to expand foreign production of a commodity critically needed in the United States or when such action is vital to implementing the foreign policy of the United States. Thus, whereas export licenses serve to limit the exportation of particular goods, the establishment of priority in production and delivery for export may be exercised to assure prompt shipment. In practice, export priorities have been granted in only a few instances, as in the case of tinplate and nitrogen fertilizer in order to facilitate the expansion of foreign production of food products in short supply in the United States.

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Control.- Source materials and facilities for the production of fissionable material.

Authorization.- Public Law 385, 79th Congress. (Atomic Energy Act of 1946).

Administrative agency.- Atomic Energy Commission.

Objectives.- To foster the development and use of atomic energy with full regard for national security and world peace; to assure an adequate supply of facilities for the production of fissionable material; and to prevent the use of such facilities in a manner inconsistent with national welfare.

Procedure.- (Effective November 30, 1947)

Exports of "source materials" and "facilities" for the production of fissionable material are prohibited unless authorized by a license issued by the Commission. (Federal Register of November 18, 1947, sets forth current regulations). "Source materials" means uranium, thorium, or other material particularly essential to the production of fissionable materials. "Facilities" are defined as (1) any equipment or device capable of production of fissionable material and (2) any important component part especially designed for such equipment or devices.

"Sources" and "materials" are officially classified in two groups of commodities. Items in Class I require licenses not only for their exportation but also for domestic production, distribution and the like. In effect, a virtual embargo has been imposed on most items in this group. Class II commodities also

require licenses for their exportation, permits being granted only after scrutiny as to their end use, destination, and relation to national security. Materials of importance in the production or development of atomic energy may be (and have been) placed on the Positive List for control under the general export program.

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Control.- Arms, ammunition, and implements of war; tinplate scrap; and helium gas.

Authorization.- Act of November 4, 1939 (54 Stat.10); Act of February 15, 1939 (49 Stat. 1140); and Act of September 1, 1937 (50 Stat.887). Delegated authority under Act of July 2, 1940 (54 Stat.714), as amended.

Administrative agency.- Munitions Control Division, Department of State.

Objectives.- Originally, to implement commitments with respect to the international traffic in arms. Under the Export Control Act of 1940, as amended, to aid in carrying out the Foreign Policy of the United States.

Procedure.- (Present regulations.- Presidential Proclamation 3776 - effective April 15, 1945). Export licenses are required for 11 broad categories of arms and ammunitions, including rifles and guns, artillery, ammunition, shells and projectiles, tanks, vessels of war, landing craft, radar equipment, aircraft, flame throwers, poison gases, and explosives, as well as tinplate scrap and helium gas. Licenses for the exportation of arms and ammunitions were originally required largely for purposes of registration only; authority to deny licenses was limited and rarely invoked except, for example, in instances where U.S. treaty obligations were violated. Under authority delegated by the Export Control Act of 1940 as amended, however, these exports are subject to scrutiny comparable to items on the Positive List. Currently, no licenses are being granted for the exportation of tinplate scrap.

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Control.- Gold and narcotics.

Authorization.- Gold Reserve Act of 1934 (31 CFR, Part 54), and the Opium Poppy Control Act of 1942.

Administrative agency.- Treasury Department.

Objectives.- To implement the Government's control over the supply and value of the currency and to control the traffic in narcotics.

Procedure.- Licenses required for all exports of gold (except "fabricated" gold). Similarly, licenses are required for narcotics.